SaskTel

Financial Statements of

DIRECTWEST CANADA, INC.

December 31, 2006

DirectWest Canada, Inc. (DWC)

DirectWest Canada, Inc. (DWC) is a wholly-owned subsidiary of DirectWest Corporation that publishes independent telephone directories outside of Saskatchewan. It was established to exploit the rapidly growing independent directory market in Canada. DWC currently publishes competitive telephone directories in the markets of Red Deer, Grande Prairie, Edmonton, and Medicine Hat, and is entering the markets of Calgary and Winnipeg.

Operations began in 2005 and were initially conducted through a subsidiary, The Phone Book Company Partnership (PBC), in which DWC held an 85% interest. Subsequent to the 2006 year end, DWC purchased the minority interest and now holds 100% of the business. DWC publishes its directories under the PBC Business Finder™ and EZ Business Finder™ brands. DirectWest Corporation provides production and back-office functions.

President's Message

Our focus is on providing competitively priced directory advertising which generates a strong return on investment for its advertisers. 2006 was a busy and dynamic year as development activities continued and regular operations grew.

DWC published our first directories in Edmonton and Grande Prairie, while a Medicine Hat directory business was acquired and its first DWC edition was published. In 2006, we entered the market in both Calgary and Winnipeg and began sales for the first issue.

DWC's operating results in 2006 reflect the situation of a start-up experiencing rapid growth. Our revenue for the year was $4.1 million versus $0.5 million in 2005.

The Canadian directory publishing sector continued to change and grow at a rapid pace in 2006. Competitive publishers have continued to move into new markets with directory start-ups, as well as acquiring the operations of smaller publishers across the country.

Looking forward, the directory publishing sector in Canada is expected to continue its dynamic growth trend and I believe DWC is well positioned to capitalize on this growth. Independent publishers will continue to grow more rapidly than incumbent publishers and opportunities exist for further expansion across Canada. We will also continue to seek expanded markets and additional sources of revenue.

In closing, I would like to thank our dedicated employees and management team, and especially our customers for providing us with the strong position from which we anticipate strong growth in 2007.

Gord Farmer
President, DirectWest

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statements of financial position of DirectWest Canada, Inc. as at December 31, 2006 and December 31, 2005 and the statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 9, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005
Gross revenue	$4,106	$457
Cost of sales	2,108	142
Gross profit	1,998	315
Operating expenses	4,247	1,111
Loss from operations	(2,249)	(796)
Interest income	18	25
Non-controlling interest	279	89
Net loss	($1,952)	($682)

See accompanying notes

Consolidated Statement of Deficit

For the period ended December 31, (Thousands of dollars)	2006	2005
Balance, beginning of year	($682)	$-
Net loss	(1,952)	(682)
Balance, end of year	($2,634)	($682)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005
Assets		
Current assets		
Cash and short-term investments (Note 4)	$80	$1,375
Accounts receivable	459	138
Prepaid publishing costs	2,437	1,770
Prepaid expenses	25	3
	3,001	3,286
Property, plant and equipment (Note 5)	265	164
Intangible assets (Note 6)	1,089	1,108
Goodwill	271	271
	$4,626	$4,829
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness	$123	$-
Accounts payable and accrued liabilities	1,811	895
Deferred revenue	667	1,083
	2,601	1,978
Non controlling interest	152	218
Shareholder's equity		
Share capital and contributed surplus (Note 7)	4,507	3,315
Deficit	(2,634)	(682)
	1,873	2,633
	$4,626	$4,829

See accompanying notes

On behalf of the Board:

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net loss	**($1,952)**	($682)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation and amortization	**$361**	$220
Other	**(65)**	(89)
Net change in non-cash working capital (Note 8)	**(443)**	11
Cash used in operating activities	**(2,099)**	(540)
Investing activities		
Property, plant and equipment expenditures	**(200)**	(163)
Investment, net of cash acquired	**(311)**	(1,237)
Cash used in investing activities	**(511)**	(1,400)
Financing activities		
Shareholder contributions (Note 7)	**1,192**	3,315
Increase (decrease) in cash during the year	**(1,418)**	1,375
Cash and cash equivalents, beginning of year	**1,375**	-
Cash and cash equivalents, end of year	**($43)**	$1,375
Comprised of:		
Cash	**$80**	$425
Short-term investments	**-**	950
Bank indebtedness	**(123)**	-
	($43)	$1,375

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 – Organization

DirectWest Canada, Inc. (the Corporation) (formerly 3364381 Canada Ltd.), holds an 85% interest in the Phone Book Company Partnership which publishes phone directories in the Province of Alberta. The Corporation has also begun to market and supply print phone directories in the Province of Manitoba.

The Corporation is wholly owned by DirectWest Corporation and the financial results are included in the consolidated financial statements of DirectWest Corporation. As a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco), through its subsidiary DirectWest Corporation, the Corporation is not subject to Federal or Provincial Income Taxes in Canada.

Note 2 – Significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Subsidiaries

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated.

The following is a summary of the operating entities of the Corporation:

	Percentage ownership	Basis for inclusion
The Phone Book Company Partnership	85.0%	Consolidation

Short-term investments

Short-term investments represent interest bearing investments with Holdco and financial institutions that are due on demand and are stated at cost which approximates market value.

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated over the estimated useful lives of the assets.

Asset	Estimated useful life
Non-competition agreement	5 years
Customer list and relationships	10 years
Creative value of directories	3 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwiii is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations, before extraordinary items and discontinued operations.

Revenue recognition

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in specialty publications. Advertising revenues are generally recognized, in

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed up front for directories are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, intangible assets, goodwill, and the recoverability of prepaid publishing costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its foreign currency exposure. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation purchases forward foreign exchange contracts to hedge foreign currency risks on telephone directory printing contracts with suppliers outside Canada, and the related accounts payable. These instruments are not recognized in the consolidated financial statements on inception. Foreign exchange gains and losses on these contracts are recognized as an adjustment of the costs when the purchase is recorded. The portion of the premium or discount on the contracts relating to the period prior to the consummation of the purchase is also recognized as an adjustment of the costs when the purchase is recorded and the portion of the premium or discount relating to the resulting accounts payable is amortized as an adjustment of interest expense over the remaining term of the contract.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current,

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Note 3 – Acquisition

On January 10, 2006 the Corporation, through its subsidiary, The Phone Book Company Partnership, purchased a 100% interest in the directory assets of THE Telephone Book COMPANY Inc. for cash consideration of $0.35 million. THE Telephone Book COMPANY Inc. is an independent telephone directory publisher serving the Alberta communities of Brooks, Medicine Hat, Redcliff and Bow Island. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(Thousands of dollars)	
Total consideration	$350
Total tangible assets	113
Total intangible assets	244
Total liabilities	(7)
Net assets acquired	$350

Note 4 – Cash and short-term investments

Short-term investments represent funds invested at an average interest rate of 4.31% (2005 – 3.00%).

Note 5 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
(Thousands of dollars)				
Office furniture, equipment and leaseholds	**$408**	**$143**	**$265**	$164

Depreciation and amortization for the year totaled $99,232 (2005 - $44,105).

Notes to the Consolidated Financial Statements

Note 6 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Non-competition agreement	$582	$280	$302	$360
Customer list and relationships	808	132	676	637
Other	137	26	111	111
	$1,527	$438	$1,089	$1,108

Other intangible assets include $85,558 (2005 – $85,558) indefinite life intangible assets as at December 31, 2006.

Amortization for the year totaled $262,203 (2005 - $176,170).

Note 7 – Share capital and contributed surplus

	2006	2005
	(Thousands of dollars)	
Share capital		
Authorized – unlimited number of class A common shares		
Issued – 100 shares	$-	$-
Contributed surplus		
Balance, beginning of year	3,315	-
Contributions during the year	1,192	3,315
Contributed surplus, end of year	4,507	3,315
Share capital and contributed surplus, as at December 31	$4,507	$3,315

Note 8 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	($264)	($341)
Prepaid publishing costs	(650)	(1,616)
Prepaid expenses	(22)	(3)
Accounts payable and accrued liabilities	909	1,295
Deferred revenue	(416)	676
	($443)	$11

Notes to the Consolidated Financial Statements

Note 9 – Commitments and contingencies

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

	(Thousands of dollars)
2007	$79
2008	52
2009	54
2010	39
2011	12

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Note 10 – Non-monetary transactions

During the year the Corporation entered into non-monetary transactions to exchange advertising for various products and services. No gains or losses have been reported on these transactions. Gross revenue includes $44,486 (2005 - $24,416), operating expenses include $45,137 (2005 - $24,416), deferred revenue includes $11,105 (2005 - $38,083), prepaid publishing costs include $7,954 (2005 - $38,083), and property, plant and equipment includes $2,500 (2005 - $0) of non-monetary transactions.

Note 11 – Financial instruments

Currency exposure

The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts payable and the associated expenses will fluctuate due to changes in exchange rates. The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Credit risk

The Corporation has a sufficiently diversified customer base that it is not subject to any significant concentration of credit risk.

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these financial instruments.

Notes to the Consolidated Financial Statements

Note 12 – Related party transactions

Included in these financial statements are transactions with the minority partner of the Phone Book Company Partnership and with Holdco and its subsidiaries, various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2006	2005
	(Thousands of dollars)	
Operating expenses	**$1,096**	392
Prepaid publishing costs	**247**	60
Accounts payable and accrued liabilities	**1,282**	668

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 13 – Subsequent event

Subsequent to year end, the Corporation purchased all of the outstanding partnership units of The Phone Book Company Partnership owned by MidWest Marketing Inc. for cash consideration of $460,000.